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## THE FINANCIAL SITUATION.

The present stock market showed pretty well the effect of what is made by the manner in which it withdrew a week ago the shock of the Chicago bank failures. It has, of course, been a matter of observation and comment for a year back that the stock market has been more or less of an anomaly. In this period it has been affected in little or no degree by occurrences that would under ordinary circumstances have depressed it sharply and severely. The general manner of the Russian situation, the scandalous revelations in the course of the life insurance investigations, the high rates for the use of money, and the fears of Congressional legislation directed against the railroads have all been influences of the same character as those which have often in time past caused general demoralization in security prices. In the present year, so far as the stock market is concerned, all these forces have been found to be only of academic bearing, and this is proof sufficient of the tremendous prosperity of the country and of the fact that it rests on foundations of greater strength and solidity than have ever been witnessed before in the country's financial history. It has also been noticed, however, that the market, while impervious to upward happenings of the kind that have been mentioned, has not worn an indifferent face when disclosures were made of a state of definite financial weakness in any direction, or when, in other words, there were developments of a kind that would clearly cause a certain amount of stock to be put on the market for sale. There was therefore very general apprehension last Monday as to what might happen when without the slightest previous intimation of the disaster, it became known that three banks in Chicago, with liabilities of over \$27,000,000, had practically suspended, and that their difficulties were brought about by the reckless use in his own private business, by the capitalist who controlled these institutions of the money entrusted to his honorably care. It was realized that the other Chicago banks had met the situation with the greatest promptitude and skill and that the funds of depositors in the broken banks were safe. But would the incident engender a feeling of distrust in business circles in Chicago and elsewhere that would leave its mark in Wall Street? Was it altogether certain that other bank troubles and failures might not follow in the Western cities? The stock market after the first two hours of business last Monday morning made a ready answer to these questions. It stoutly affirmed its belief that the conditions which had brought about the current range of security valuations could not in any way be materially altered by the Chicago difficulties. There was much selling, naturally, by frightened speculators for the rise and by overconfident speculators for the decline, who both thought that the market would take a tumble. But pressure of this sort was short lived. The selling disclosed no slenderly margined accounts in brokers' offices and resulted in no panic-stricken rush to execute stop orders. As it turned out, the incident was really the best thing for the market that could happen, because it gave prices a moderate reaction, of which, from a technical point of view, they were very much in need; and it unquestionably fortified in its position the account open for the rise. The history of the stock market during the rest of the week was that of a renewal of the advance in prices that had been previously under way.

If the Chicago bank affair was the most important item of news during the week, the rise of Union Pacific stock was the most striking feature of the security market. Wall Street endeavored, as it always does on such occasions, to explain the movement in Union Pacific as due to the execution of a deal of some kind or other. Every old story of this kind affecting the Union Pacific's future relations that has been heard in the financial district in the present decade was once more brought out. A contest for the control of the property between the present management and the Hill-Morgan interests, a New York Central-Northern Union Pacific "transcontinental" amalgamation, the formation of a syndicate to take over the Union Pacific's holdings of Great Northern and Northern Pacific preferred stock, with a consequent large extra cash distribution upon the Union Pacific common shares—all these and similar stories formed favorite subjects of gossip in brokers' offices. It is one of the most curious aspects of the Wall Street temperament that it invariably, under circumstances such as those that are now presented, loves to attribute movements in security prices either to out and out manipulation by great stock market operators or to the outworking of some great coup by this or that capitalist power. Yet every one truly familiar with Wall Street is aware that such forces as these play only a very little part in making prices of stocks, and that the true reasons for either great elevations or great depressions in values are the simple realization of either actual or prospective business conditions which, it may be, are more often appreciated more fully by the larger capitalists than by the smaller ones. In the case of Union Pacific, however, there is almost nothing that is unaccounted for from the view of any ordinarily intelligent reader of the daily newspapers. As the possessor of the most direct and economically managed railway line leading from the heart of the country to the Pacific Coast, the Union Pacific has benefited enormously by the agricultural and general prosperity of the country in the last ten years. Upon the Union Pacific's revenue over \$100,000,000 has been spent, since the reorganization of the company, for the betterment and improvement of the property, and by reason of these betterments and improvements the company is now enabled to operate its line at comparatively low cost. The Union Pacific earned in the fiscal year ended June 30 last 11½ per cent. upon its outstanding common stock after very heavy improvement appropriations, and as its net earnings have increased \$2,500,000 in the first half of the present fiscal year it is morally certain that the company will earn upon its common stock in the year as a whole at least 14 per cent., and perhaps more. The Union Pacific could, therefore, as easily as the St. Paul afford to make an annual distribution of 7 per cent. upon its common shares, and it should be surprising to nobody if dividends upon the stock were soon ordered at this rate. This basis of reckoning, moreover, is obviously regardless of the \$178,000,000 of free assets in the Union Pacific's treasury which at ruling market prices are clearly worth \$60,000,000 or \$70,000,000 more than the sum stated. The greater portion of the increase is obviously due to the high prices of the Great Northern preferred and Northern Pacific stocks, of which Union Pacific is so large a holder; and these prices are in turn due to an enhancement in value to which the mass of people have been singularly blind. On the day, a few months ago, when Mr. James J. Hill and the leading directors of his road visited the city of Seattle, it became known that certain terminals in the city had been purchased in the interest of the Chicago, Milwaukee and St. Paul Railway Company for the use of the Western extension of its

lines. For these properties the St. Paul paid a very high price, and yet the Great Northern's terminals in the same city, which were acquired years ago for a song, are to-day estimated to be worth \$35,000,000. This is one instance merely of the way the worth of the Great Northern property has been inflated. There are strong reasons for thinking that in the course of the next few months the Northern Pacific Company will make an extra distribution to its stockholders of a sort very similar to that recently made by the Great Northern, and it is also probable that in the not far distant future the Great Northern Company will lease its one lands upon a royalty basis to the United States Steel Corporation in such a way as to give to its shareholders, in the shape of dividends upon the stock of a new company to be created, between \$10,000,000 and \$15,000,000 a year. In all these benefits the Union Pacific must directly share, and all these elements of strength that have been related, and which are in their very nature open to the knowledge of every one, are those which have been behind the advance in Union Pacific stock in the last month. An argument that has long prevailed with very many people as one militating against the likelihood of an advance in the Union Pacific dividend rate, despite the known presence of such vast equities in the property, is that the managers of the company have been visibly loath to enlarge dividends, and that with increasing competition in their territory hesitation in this regard may be emphasized. But there are no such conditions that also bear acutely upon the point in question. One is that the eyes of all railway managers have been opened in the last two years to the absolute need of the West for additional railway facilities, so that the conviction has been impressed upon them that such new railway building as takes place there within the next four or five years will only serve to develop new business in the territory. The other argument is that it is one whose force increases daily that possessors of railway and other properties in which great equities are existing cannot afford to make meagre distributions if they desire to retain control of their properties.

Right at the end of the week came the news that the control of the Metropolitan Street Railway Company and its many subordinate lines had been passed to the Interborough interest, and this was properly regarded as one of the most interesting announcements that had been made in Wall Street for many a day. While no official proclamation in regard to the matter was made, and while, therefore, all ideas as to what financial rearrangement of the local transportation companies are impending are more or less in the nature of guesswork, the prevalent feeling appeared to be that the formation of a new holding company, taking over the Interborough, New York City Railway, Metropolitan Street Railway companies, etc., was likely; and it was also considered probable, although not the slightest official basis for the idea was afforded, that Metropolitan Street Railway stock would be taken into the new company at a price which would indicate the willingness of those who possessed it to release the New York City Railway Company from the present guarantee made by the latter company of an annual 7 per cent. dividend upon the Metropolitan Street Railway shares. This thought was obviously suggested by the plain difficulties of a matter of fact nature which now stand in the way of a fulfillment of the guarantee question, and by the immensely strengthened position in which the Metropolitan Street Railway shares would stand as being guaranteed either by the Interborough Company or as representing component parts of a new street railway holding company in which the Interborough company should form the backbone. It was, however, stated by those who should be well informed about the matter that absolutely nothing would be done in the way of releasing the present dividend upon the Metropolitan Street Railway shares. One thing that can be recognized as certain is, as fully stated in Mr. Ryan's statement on Saturday, that no plan regarding the matter will be consummated without offering every shareholder of the Metropolitan Street Railway or the Securities Company equal participation, nor that any plan will be proposed that will be done in the way of releasing in any particular. A single ownership of all the street railway transportation interests in the city will present marked advantages to such control as compared with any that exists under the present unsettled conditions. It seems to be pretty well understood in high quarters, too, that standing back of the Interborough company in this matter is the great Pennsylvania Railroad interest, with its great capital and progressive management; and this doubtless accounted for the advance in the stock market of the price of Pennsylvania stock after the traction merger became publicly known. It is plain, finally, that Third Avenue Railroad stock will reap large and peculiar benefit out of the current transaction. It will pass into the new holding company as an underlying security standing on the same basis exactly as that of the Manhattan, Elevated Railway and of the old Broadway and Sixth Avenue and other street railway companies. Its future, therefore, so far as stock market valuation is concerned, is manifestly that of a substantially guaranteed present 5 per cent. dividend paying stock which for four years after the first of April next will pay 6 per cent., and at the end of that period will pay 7 per cent. to its owners.

Aside from the Chicago trouble, all the developments during the week were of encouraging character. The situation in Russia seems to have utterly lost potency as a market factor, and while affairs in that country will probably be disturbed for a long period to come, and existing difficulties be accentuated by the great strike that is now in progress, it becomes more evident every day—or it is so to many of our leading bankers—that the workmen and other disorderly classes of the population must soon cease their struggles from pure physical exhaustion, leaving Count Witte to inaugurate in due course a constitutional and reformed government. The general industrial and mercantile trade continues in splendid shape, as was attested during the week in the announcement that orders for 7,000,000 tons of steel were still unfilled on the books of the United States Steel Corporation. The impression has become very strong that such railway rate bill as passes the present session of Congress will not be of a drastic sort, and may be one that will be suggested by the railroad companies themselves. And what is more encouraging than anything else from a speculative point of view is the near approach of the January period of ease in money rates, an ease that will also apparently be as pronounced, and for special reasons, in foreign financial circles as here.

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